
**REPORT ON THE AUDIT OF THE
MISSOURI OFFICE OF THE STATE AUDITOR
FOR THE YEARS ENDED JUNE 30, 2015, 2014, 2013, AND 2012**



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Independent Auditors' Report

Members of the General Assembly and
Honorable Nicole Galloway, CPA, Missouri State Auditor
Jefferson City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the *Missouri Office of the State Auditor* (the "Office") as of and for the years ended June 30, 2015, 2014, 2013, and 2012, as identified in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting and the State of Missouri's legal budgetary basis of accounting as described in Note 1; this includes determining that the basis of accounting as described in Note 1 is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of State Auditor-Federal Fund and Petition Audit Revolving Trust Fund; the receipts of the General Revenue Fund-State; the appropriations and expenditures of the various funds; and general capital assets of the *Missouri Office of the State Auditor* as of and for the years ended June 30, 2015, 2014, 2013, and 2012 in conformity with the basis of accounting discussed in Note 1, which is a basis of accounting other than generally accepted accounting principles.

Basis of Accounting

The accompanying financial statements were prepared on the basis of accounting described in Note 1, pursuant to RSMo Section 29.351.1, as requested by the Missouri General Assembly, for the purpose of presenting the receipts, disbursements, and changes in cash and investments of the State Auditor-Federal Fund and the Petition Audit Revolving Trust Fund; the receipts of the General Revenue Fund-State; the appropriations and expenditures of various funds of the *Missouri Office of the State Auditor*; and general capital assets. This basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles and is not intended to be a complete presentation of the financial position and results of operations of the various funds of the Office in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2016 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

Other Matters

This report is intended solely for the information and use of the Missouri General Assembly, the management of the *Missouri Office of the State Auditor*, the Governor and other applicable government officials and is not intended to be and should not be used by anyone other than these specified parties.

Park & Associates, P.C.

June 10, 2016
St. Louis, Missouri

MISSOURI OFFICE OF THE STATE AUDITOR
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH AND INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 2015

	State Auditor- Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 734,982	\$ 464,653	\$ 1,199,635
Total Receipts	<u>734,982</u>	<u>464,653</u>	<u>1,199,635</u>
DISBURSEMENTS			
Personal service	480,522	284,454	764,976
Employee fringe benefits	202,550	125,867	328,417
Expense and equipment	<u>30,122</u>	<u>33,553</u>	<u>63,675</u>
Total Disbursements	<u>713,194</u>	<u>443,874</u>	<u>1,157,068</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	21,788	20,779	42,567
CASH AND INVESTMENTS, JULY 1, 2014	<u>942,072</u>	<u>928,484</u>	<u>1,870,556</u>
CASH AND INVESTMENTS, JUNE 30, 2015	\$ <u><u>963,860</u></u>	\$ <u><u>949,263</u></u>	\$ <u><u>1,913,123</u></u>

MISSOURI OFFICE OF THE STATE AUDITOR
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH AND INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 2014

	State Auditor- Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 845,931	\$ 370,406	\$ 1,216,337
Total Receipts	845,931	370,406	1,216,337
DISBURSEMENTS			
Personal service	583,931	219,282	803,213
Employee fringe benefits	249,902	96,558	346,460
Expense and equipment	30,075	36,033	66,108
Total Disbursements	863,908	351,873	1,215,781
RECEIPTS OVER (UNDER) DISBURSEMENTS	(17,977)	18,533	556
CASH AND INVESTMENTS, JULY 1, 2013	960,049	909,951	1,870,000
CASH AND INVESTMENTS, JUNE 30, 2014	\$ 942,072	\$ 928,484	\$ 1,870,556

MISSOURI OFFICE OF THE STATE AUDITOR
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH AND INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 2013

	State Auditor- Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 1,003,106	\$ 213,117	\$ 1,216,223
Total Receipts	<u>1,003,106</u>	<u>213,117</u>	<u>1,216,223</u>
DISBURSEMENTS			
Personal service	682,241	120,333	802,574
Employee fringe benefits	285,071	50,013	335,084
Expense and equipment	<u>30,119</u>	<u>34,639</u>	<u>64,758</u>
Total Disbursements	<u>997,431</u>	<u>204,985</u>	<u>1,202,416</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	5,675	8,132	13,807
CASH AND INVESTMENTS, JULY 1, 2012	<u>954,374</u>	<u>901,819</u>	<u>1,856,193</u>
CASH AND INVESTMENTS, JUNE 30, 2013	\$ <u><u>960,049</u></u>	\$ <u><u>909,951</u></u>	\$ <u><u>1,870,000</u></u>

MISSOURI OFFICE OF THE STATE AUDITOR
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH AND INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 2012

	State Auditor- Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 1,029,196	\$ 540,751	\$ 1,569,947
Total Receipts	<u>1,029,196</u>	<u>540,751</u>	<u>1,569,947</u>
DISBURSEMENTS			
Personal service	655,929	174,761	830,690
Employee fringe benefits	262,643	73,456	336,099
Expense and equipment	<u>30,118</u>	<u>45,239</u>	<u>75,357</u>
Total Disbursements	<u>948,690</u>	<u>293,456</u>	<u>1,242,146</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	80,506	247,295	327,801
CASH AND INVESTMENTS, JULY 1, 2011	<u>873,868</u>	<u>654,524</u>	<u>1,528,392</u>
CASH AND INVESTMENTS, JUNE 30, 2012	\$ <u><u>954,374</u></u>	\$ <u><u>901,819</u></u>	\$ <u><u>1,856,193</u></u>

MISSOURI OFFICE OF THE STATE AUDITOR
COMPARATIVE STATEMENTS OF RECEIPTS
GENERAL REVENUE FUND-STATE

	Year Ended June 30,			
	2015	2014	2013	2012
Bond registration	\$ 171,573	\$ 165,650	\$ 185,072	\$ 182,644
Audit fees	104,090	145,861	53,926	18,971
Miscellaneous	11,389	550	906	2,682
Total	<u>\$ 287,052</u>	<u>\$ 312,061</u>	<u>\$ 239,904</u>	<u>\$ 204,297</u>

MISSOURI OFFICE OF THE STATE AUDITOR
COMPARATIVE STATEMENTS OF APPROPRIATIONS AND EXPENDITURES

	Year ended June 30,					
	2015			2014		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personal service	\$ 5,285,114	\$ 5,218,394	\$ 66,720	\$ 5,420,394	\$ 5,104,401	\$ 315,993
Expense and equipment	1,252,859	1,067,779	185,080	1,057,859	967,932	89,927
Auditor state owned building	8,592	8,014	578	11,701	8,058	3,643
Auditor statewide leasing	180,026	173,347	6,679	184,442	184,442	-
Total General Revenue Fund	6,726,591	6,467,534	259,057	6,674,396	6,264,833	409,563
STATE AUDITOR - FEDERAL FUND						
Personal service	866,768	480,522	386,246	860,063	583,931	276,132
Expense and equipment	30,123	30,122	1	30,123	30,075	48
Total State Auditor - Federal Fund	896,891	510,644	386,247	890,186	614,006	276,180
CONSERVATION COMMISSION FUND						
Personal service	44,605	44,605	-	44,151	44,151	-
Expense and equipment	2,611	2,608	3	2,611	2,610	1
Total Conservation Commission Fund	47,216	47,213	3	46,762	46,761	1
PARKS SALES TAX FUND						
Personal service	22,278	22,278	-	22,051	22,051	-
Total Parks Sales Tax Fund	22,278	22,278	-	22,051	22,051	-
SOIL AND WATER SALES TAX FUND						
Personal service	21,490	21,490	-	21,267	21,267	-
Total Soil and Water Sales Tax Fund	21,490	21,490	-	21,267	21,267	-
PETITION AUDIT REVOLVING TRUST FUND						
Personal service	840,417	284,454	555,963	831,958	219,282	612,676
Expense and equipment	31,616	31,615	1	31,616	31,614	2
Total Petition Audit Revolving Trust Fund	872,033	316,069	555,964	863,574	250,896	612,678
Total All Funds	\$ 8,586,499	\$ 7,385,228	\$ 1,201,271	\$ 8,518,236	\$ 7,219,814	\$ 1,298,422

The lapsed balances include the following withholdings made at the Governor's request:

	Year Ended June 30,	
	2015	2014
GENERAL REVENUE FUND - STATE		
Auditor state owned building	\$ 258	\$ 351
Auditor statewide leasing	5,401	-
Total General Revenue Fund	\$ 5,659	\$ 351

See the accompanying notes to financial statements and independent auditors' report.

MISSOURI OFFICE OF THE STATE AUDITOR

COMPARATIVE STATEMENTS OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	2013			2012		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personal service	\$ 5,332,768	\$ 5,093,323	\$ 239,445	\$ 5,275,903	\$ 5,163,365	\$ 112,538
Expense and equipment	1,107,859	1,015,979	91,880	1,382,859	1,051,326	331,533
Auditor state owned building	13,059	7,885	5,174	15,175	11,795	3,380
Auditor statewide leasing	211,370	204,946	6,424	218,818	212,159	6,659
Total General Revenue Fund	6,665,056	6,322,133	342,923	6,892,755	6,438,645	454,110
STATE AUDITOR - FEDERAL FUND						
Personal service	856,967	682,241	174,726	848,993	655,929	193,064
Expense and equipment	30,123	30,119	4	30,123	30,118	5
Total State Auditor - Federal Fund	887,090	712,360	174,730	879,116	686,047	193,069
CONSERVATION COMMISSION FUND						
Personal service	43,865	43,864	1	43,040	43,040	-
Expense and equipment	2,611	2,575	36	2,611	2,595	16
Total Conservation Commission Fund	46,476	46,439	37	45,651	45,635	16
PARKS SALES TAX FUND						
Personal service	21,908	21,908	-	21,496	21,496	-
Total Parks Sales Tax Fund	21,908	21,908	-	21,496	21,496	-
SOIL AND WATER SALES TAX FUND						
Personal service	21,125	21,125	-	20,728	20,728	-
Total Soil and Water Sales Tax Fund	21,125	21,125	-	20,728	20,728	-
PETITION AUDIT REVOLVING TRUST FUND						
Personal service	826,725	120,333	706,392	812,734	174,761	637,973
Expense and equipment	31,616	29,982	1,634	31,616	31,606	10
Total Petition Audit Revolving Trust Fund	858,341	150,315	708,026	844,350	206,367	637,983
Total All Funds	\$ 8,499,996	\$ 7,274,280	\$ 1,225,716	\$ 8,704,096	\$ 7,418,918	\$ 1,285,178

The lapsed balances include the following withholdings made at the Governor's request:

	Year Ended June 30,	
	2013	2012
GENERAL REVENUE FUND - STATE		
Expense and equipment	\$ -	\$ 300,000
Auditor state owned building	392	455
Auditor statewide leasing	6,423	6,659
Total General Revenue Fund	\$ 6,815	\$ 307,114

See the accompanying notes to financial statements.

MISSOURI OFFICE OF THE STATE AUDITOR
STATEMENT OF CHANGES IN GENERAL CAPITAL ASSETS

	<u>Office Equipment</u>	<u>Motor Vehicles</u>	<u>Total</u>
BALANCE, July 1, 2011	\$ 810,535	\$ 19,576	\$ 830,111
Additions	83,343	-	83,343
Dispositions	<u>(189,612)</u>	<u>-</u>	<u>(189,612)</u>
BALANCE, June 30, 2012	704,266	19,576	723,842
Additions	113,962	-	113,962
Dispositions	<u>(87,590)</u>	<u>-</u>	<u>(87,590)</u>
BALANCE, June 30, 2013	730,638	19,576	750,214
Additions	138,258	-	138,258
Dispositions	<u>(52,436)</u>	<u>-</u>	<u>(52,436)</u>
BALANCE, June 30, 2014	816,460	19,576	836,036
Additions	116,081	-	116,081
Dispositions	<u>(103,742)</u>	<u>-</u>	<u>(103,742)</u>
BALANCE, June 30, 2015	\$ <u><u>828,799</u></u>	\$ <u><u>19,576</u></u>	\$ <u><u>848,375</u></u>

MISSOURI OFFICE OF THE STATE AUDITOR

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015, 2014, 2013, AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Basis of Presentation

The accompanying financial statements present only selected data for each fund of the *Missouri Office of the State Auditor* (the "Office").

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the State Auditor – Federal Fund and Petition Audit Revolving Trust Fund. Appropriations from these funds are expended by or for the Office for restricted purposes.

The "Total (Memorandum Only)" column is presented as additional analytical data. Because this column does not identify the restrictions that exist by fund, it should be read only with reference to the details of each fund.

Receipts are presented in Exhibit B for the General Revenue Fund – State. Receipts include monies the Office collects during its normal activities and remits to the fund. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and net assets or other balances of the related funds but are used only to account for and control the Office's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the Office and other state agencies are not allocated to the applicable fund or program.

Basis of Accounting

The Statements of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, present amounts when they are received or disbursed.

The Comparative Statements of Receipts, Exhibit B, also prepared on the cash basis of accounting, present amounts when received.

The Comparative Statements of Appropriations and Expenditures, Exhibit C, are presented on the State's legal budgetary basis of accounting. Expenditures generally consist of amounts paid by June 30, with no provision for lapse period expenditures unless the Office of Administration approves an exception. Amounts encumbered at June 30 must be either canceled or paid from the next year's appropriations.

However, the General Assembly may authorize continuous (biennial) appropriations, for which the unexpended balances at June 30 of the first year of the 2-year period are re-appropriated for expenditure during the second year. Therefore, such appropriations have no lapsed balances at the end of the first year.

The cash basis of accounting and the budgetary basis of accounting differ from accounting principles generally accepted in the United States of America. Those principles require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

MISSOURI OFFICE OF THE STATE AUDITOR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015, 2014, 2013, AND 2012

Fiscal Authority and Responsibility

The Office administers transactions in the funds listed below. The State Treasurer, as fund custodian, and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

State Auditor-Federal Fund: This fund receives reimbursements from other state agencies for the Office's audits of programs funded by the federal government. Receipts are recognized at the time payments are received. As funds become available, General Revenue Fund-State costs are offset by expenditures from this fund. Appropriations from this fund represent expenditure limitations. However, expenditures are also limited by the fund balance. If this fund were not reauthorized by the General Assembly, the unexpended balance would be due to the General Revenue Fund-State.

Petition Audit Revolving Trust Fund: This fund receives reimbursements from political subdivisions for the Office's petition audits. Receipts are recognized at the time payments are received. Appropriations from this fund represent expenditure limitations. However, expenditures are also limited by the fund balance. Unexpended balances exceeding \$1,000,000 at the end of any biennium lapse to the credit of the General Revenue Fund-State. Voters of other political subdivisions such as municipalities or school districts may petition the Office to perform an audit of the political subdivision. The cost of the petition audit is paid by the political subdivision.

General Revenue Fund-State: The Office receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for the basic operation of the Office, including those programs and services that have no other funding source. These appropriations also may be used to initially fund, or to provide matching funds or support for, programs paid wholly or partially from other sources.

Conservation Commission Fund: Appropriations from this fund authorize disbursements for audit services related to the Missouri Conservation Commission and the Department of Conservation.

Parks Sales Tax Fund: Appropriations from this fund authorize disbursements for audit services related to State park services.

Soil and Water Sales Tax Fund: Appropriations from this fund authorize disbursements for audit services related to soil and water conservation.

Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System ("MOSERS"). Employees hired after January 1, 2011 are required to contribute to the retirement plan. Employees may also participate in the State's health care, optional life insurance, cafeteria, deferred compensation and deferred compensation incentive plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Payments to the Unemployment Compensation Trust Fund are made by the Office when former employees are awarded unemployment compensation benefits. The deferred compensation plan involves employee payroll deferrals and the deferred compensation incentive plan involves a state contribution for each employee who participates in the deferred compensation plan and has been employed by the State for at least 1 year. Employer contributions to the deferred compensation incentive plan were suspended by the State effective March 1, 2010 and have not been restored as of June 30, 2015.

MISSOURI OFFICE OF THE STATE AUDITOR
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015, 2014, 2013, AND 2012

The State's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and Medicare taxes; health care premiums; and the deferred compensation incentive amount.

Employee fringe benefits in the financial statements at Exhibit A are the transfers from the State Auditor – Federal Fund and the Petition Audit Revolving Trust Fund for costs related to salaries paid from those funds. Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statements at Exhibit C.

Subsequent Events

Management has evaluated the impact on the financial statements, if any, of subsequent events through June 10, 2016. Management is not aware of any subsequent events that would have an impact on the financial statements.

2. CASH AND CASH EQUIVALENTS

The cash and investment balances of the State Auditor – Federal Fund and the Petition Audit Revolving Trust Fund are pooled with other state funds and invested by the State Treasurer.

3. RECONCILIATION OF TOTAL DISBURSEMENTS TO APPROPRIATED EXPENDITURES

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

State Auditor-Federal Fund				
Year Ended June 30,				
	2015	2014	2013	2012
Disbursements Per Exhibit A	\$ 713,194	\$ 863,908	\$ 997,431	\$ 948,690
Employee Fringe Benefits	(202,550)	(249,902)	(285,071)	(262,643)
Expenditures Per Exhibit C	<u>\$ 510,644</u>	<u>\$ 614,006</u>	<u>\$ 712,360</u>	<u>\$ 686,047</u>

Petition Audit Revolving Trust Fund				
Year Ended June 30,				
	2015	2014	2013	2012
Disbursements Per Exhibit A	\$ 443,874	\$ 351,873	\$ 204,985	\$ 293,456
Employee Fringe Benefits	(125,867)	(96,558)	(50,013)	(73,456)
Cost Allocation Plan	(1,938)	(4,419)	(4,657)	(13,633)
Expenditures Per Exhibit C	<u>\$ 316,069</u>	<u>\$ 250,896</u>	<u>\$ 150,315</u>	<u>\$ 206,367</u>

4. CAPITAL ASSETS

Capital assets, which include equipment and vehicles, are valued at historical cost or estimated historical cost if actual historical cost is not available. The estimate of historical cost was based on current appraised value indexed to the date of acquisition. Donated capital assets are reported at estimated fair value at the time received. The capitalization threshold for capital assets is \$1,000.



CPAs and Business Advisors

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Members of the General Assembly and
Honorable Nicole Galloway, CPA, Missouri State Auditor
Jefferson City, Missouri

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the special purpose financial statements of the *Missouri Office of the State Auditor* (the "Office") as of and for the years ended June 30, 2015, 2014, 2013, and 2012, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the *Missouri Office of the State Auditor*, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Missouri Office of the State Auditor's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pub & Associates, P.C.

St. Louis, MO
June 10, 2016

PERFORMANCE AUDIT

Performance Audit Report

Members of the General Assembly and
Honorable Nicole Galloway, CPA, Missouri State Auditor
Jefferson City, Missouri

Pursuant to section 29.351, RSMo – Audit of the state auditor’s office, we have conducted a performance audit of the accounts, functions, programs, and management of the *Missouri Office of the State Auditor* (the “Office”) for the Missouri General Assembly. In the previous section, we have issued our audit report on the financial statements and our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. The purpose of this performance audit is to report on the economy, efficiency and operating performance of the *Missouri Office of the State Auditor*.

Accordingly, our analysis has, per specific request of the Missouri General Assembly in the request for proposal dated September 29, 2015, included the following performance areas for the years ended June 30, 2015, 2014, 2013 and 2012:

- Time allocated for performing audits and a comparison of the actual time spent and time budgeted.
- Procurement practices for outside contractors.
- Travel and media expenditures.
- Statutory and constitutional duties compared to actual performance.
- Petition Audit Revolving Fund analysis of use and fees generated, evaluation of expenditures, analysis of uncollected accounts receivable and write-offs.
- Staffing criteria for audit assignments.
- Length of time between completion of fieldwork and issuance of a report.
- Fiscal notes prepared for initiative purposes.
- Operating efficiencies of maintaining the satellite offices.

In addition, the following performance areas were considered resulting from discussions with representatives of the Missouri General Assembly on March 7, 2016:

- Personnel evaluations.
- Independence and potential conflicts of interest during the appointment of the interim State Auditor during 2015.

We conducted our performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

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The performance audit contains recommendations that identify the potential for efficiency and effectiveness improvements. Improvements in these areas can assist the Office in elevating its performance and contributions to the State of Missouri. While the recommendations contained in the audit report are intended to assess and improve the overall performance of the Office, we encourage the Office to continue its own assessment of operations and alternatives to complement the recommendations contained in the performance audit report.

Methodology and Scope

Performance audits are defined as engagements that provide assurance or conclusions based on evaluations of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance/oversight can use the information to improve program performance and operations, reduce costs, and facilitate communication, decision-making, corrective actions and public accountability.

The performance audit work was primarily conducted from March 7, 2016 to April 15, 2016. Purk and Associates, P.C. conducted the performance audit through a series of data requests, data analyses and interviews. These steps were performed in conjunction with Office staff. The information gathered provided the methodology and basis for the audit objectives, work performed, and comments and recommendations contained in the performance audit report.

Overall Assessment

The *Missouri Office of the State Auditor* performs the functions required by State statute in a professional, efficient and economical manner. The efforts of the State Auditor provide significant benefits to the State of Missouri, to governmental entities within the State who are subject to audit as required by statute, and to the citizens of Missouri.

Time Allocation for Performing Audits

The Office has allocated the following budgeted and actual hours per calendar year conducting audits:

<u>Calendar Year</u>	<u>Budgeted Hours</u>	<u>Actual Hours</u>	<u>Full-time Field Audit Staff</u>
2015	112,560	102,397	67
2014	105,840	106,528	63
2013	102,480	106,326	61
2012	107,520	103,711	64

Our analysis of the audit plan and performance of audits concluded that the planning, management and conduct of the audits are appropriate except as follows:

We tested 25 jobs, which is approximately 5% of the population during the 4 year period ended June 30, 2015. A test of budgeted hours per audit to actual hours expended indicates that the budgets were exceeded on 72% of those tested. Of the audits tested that exceeded the budget (18), the budget averaged 729 hours. The actual time expended on those audits averaged 893 hours, 164 hours (or approximately 23%) over budgeted hours. The overall average of hours over budget for audits with

fieldwork ending during the fiscal years under audit was 86 hours per job. The breakdown by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Average Hours Over Budget per Audit</u>
2015	117
2014	106
2013	56
2012	78

Actual hours per audit exceeded budgeted hours for a variety of reasons. These include discovery of fraud, new audit staff, auditee problems including inadequate records and changes in audit scope. Issues are more likely to come up during petition audits as these are typically performed when citizens believe that there is an issue of fraud or inadequate records.

Of the 25 jobs selected for testing, 5 petition jobs (representing approximately 16% of the population) were selected. Of the 18 audits tested that were over the budgeted hours, 5 were petition audits. On average, these audits exceeded the budget by 182 hours (or approximately 52% of budgeted hours). This average was somewhat skewed by one petition job selected for testing that was substantially over budget. In total, petition jobs exceeded the budget by an average of 94 hours (or approximately 16% of budgeted hours).

Although the excess of actual hours over budget hours is significant, the trend noted is slightly fewer audits over budget and slightly fewer hours over budget, in general, in comparison to the previous four year audit period. While the overall averages suggest marginal improvement in this area compared to the prior audit period, the trend for the four years under review suggest that there are still opportunities for improvement in this area.

We recommend that the Office continues to monitor the individual audit budgets against actual hours spent and revise future budgets for realistic expectations as part of an overall continuous audit process improvement.

State Auditor's Response:

At the beginning of each audit, the State Auditor's Office develops an estimated timeline to completion. As indicated in the comments found in this section, actual hours per audit can exceed the estimated hours to completion due to issues such as the discovery of fraud, government mismanagement, inadequate record-keeping, and government entities not being cooperative in the audit process.

The State Auditor's Office will continue to monitor the audit process and the estimated and actual hours to completion of an audit.

Procurement Practices for Outside Contractors

Our analysis of procurement practices noted that the outside contractors are procured when necessary in accordance with statutory requirements and state regulations and employ good business practices in their selection and use. The Office of Administration, Division of Purchasing, is involved in the process when required by statutes and regulations. Contractors are evaluated based

upon technical proficiency and cost as appropriate. Products and services provided are monitored in an effective manner and no recommendations are made in this area.

Travel and Media Expenditures

We examined travel and media expenditures. A comparative analysis indicated that travel costs increased approximately 10% from fiscal year 2011 to 2012 and then decreased in fiscal year 2013 by approximately 9%. During fiscal years 2014 and 2015, travel costs increased by approximately 2% and 23%, respectively. Travel expenses will vary based on the fluctuations in fuel and other travel costs as well as the type and location of each individual audit job. The Office cannot predict or plan for the various petition audits that will come through their office. The large increase in 2015 was caused by a variety of factors. One petition audit was particularly involved and required fieldwork for the majority of the year. Additional staff was assigned to accelerate completion. The Office also increased the number of municipal court audits in 2015 to evaluate compliance with statutory changes that had taken place. Many of the initial audits were in the St. Louis area, with higher overall travel costs. Finally, the Office conducts 20 to 24 county audits per year as part of the county audit cycle. In 2015, there were 24 county audits scheduled, including two bootheel counties which typically have higher travel costs. The travel expenses for the fiscal years under audit were as follows:

<u>Fiscal Year</u>	<u>Travel Expenses</u>
2015	388,437
2014	315,206
2013	308,004
2012	337,506

Media expenditures have also been analyzed. Media costs consisted of one to two full-time employees during the fiscal years under audit. Only a portion of work performed by these employees is devoted to media related responsibilities. All costs associated with media are expensed as payroll. All other expenses in relation to media are not distinguished from other expenses incurred by other departments. The media expenses for the fiscal years under audit were as follows:

<u>Fiscal Year</u>	<u>Media Related Wages</u>
2015	53,379
2014	57,495
2013	57,270
2012	57,142

Overall, travel and media expenditures are in line with expectations given the volume and mix of audit engagements and in comparison to prior years. No recommendations are made in this area.

Statutory and Constitutional Duties Compared to Actual Performance

A review was made of the statutory and constitutionally required audits. All significant audits have been accomplished during the four year audit period. However, certain audit and oversight responsibilities were not achieved as required.

The audits or responsibilities not performed include:

Entity	RSMo	Responsibility	Efforts Performed
Working Capital Revolving Fund	217.595.6	Annual Audit	Audited each year in conjunction with audits of State of Missouri Comprehensive Annual Financial Report; no separate stand-alone report
Department of Insurance	374.250.2	Annual Audit	Most recent audit completed was for the three fiscal years ended 6/30/12; audit of the three fiscal years ended 6/30/15 in-progress
Local Sales Tax	32.087.15	Annual Audit	Most recent audit performed was for the three fiscal years ended 6/30/14
DED Tax Credits - Cost Benefit Analysis	620.1300	4 Year	Audits are not performed in accordance with the frequency required by the RSMo
MO State Lottery	313.315.1	Biannual Audit	Most recent audit performed was for the three fiscal years ended 6/30/14
Gaming Proceeds for Education Fund	313.822.3	Annual Audit	Most recent audit performed was for the two fiscal years ended 6/30/10

Additionally, as noted in the prior audit, an Attorney General's Opinion 7-83 provided an opinion that the auditor is to perform audits of the divisions of the 45 Judicial Circuits. Through calendar year 2009, many of these divisions were included in third class counties which are audited in the third class county audit cycle. Effective in calendar year 2010, the Office no longer audited the circuit courts in conjunction with the third-class county audits; however, the circuit court audits are included when evaluating the Office's six month audit planning process. Our review noted several Judicial Circuit audits that were issued during the four-year period under review. The Attorney General's opinion does not address the frequency of the audits.

The Office stated that audits are scheduled on a priority basis and that other audits were deemed to have higher priority than those discussed above. An overall risk assessment based on public interest, perceived significance, and assessed audit risks are considered when developing audit plans. Audits that are required by a particular RSMo, but do not designate a time period or audit frequency or that are stated as "subject to" rather than "shall" are considered discretionary by the Office and are performed according to priority based on perceived public interest or significance as determined by the Office. Furthermore, based on inquiry of Office management, the Office has taken advantage of risk assessment standards and related strategies to the extent allowed by Government Auditing Standards and statutory mandate to maximize the scope of entities audited, the number of audits, and the effectiveness of such audits based on assessed risks.

We recommend that the Office develop a plan to perform statutorily mandated audits. Audits that are deemed ineffective or otherwise lack sufficient priority based on risk assessments should be reported to the legislature for consideration to eliminate such unimportant or ineffective audits, or to reduce the frequency and/or scope of statutorily mandated audits identified to be of lower risk based on prior results and/or assessed risks.

State Auditor's Response:

The State Auditor's Office does not issue separate reports on all identified areas but instead audits funds in conjunction with our annual audit of the State of Missouri's Comprehensive Annual Financial Report ("CAFR"). Additionally, the Office has completed its audit of the past fiscal years for the Department of Insurance, Department of Revenue Sales and Use Tax ("DOR Sales Tax funds"), and the Missouri State Lottery Commission and has issued the respective reports.

The Office is committed to undertaking a comprehensive review of the areas identified and will continue to utilize a risk assessment approach when carrying out its audit duties.

The Office will continue to monitor and effectively use its available resources.

Petition Audit Revolving Fund Analysis

Our analysis of this area indicated that the funds expended and the fees generated were consistent, and that the charges to this fund were appropriate under the Office's statutory authority.

A test was performed to determine whether all audit costs incurred during the performance of petition audits were billed and collected. Petition audits are required to be performed by the Office in accordance with RSMo 29.230.2. Subsection (4) of this statute states, in part, "The political subdivision shall pay the actual cost of the audit."

Our examination tested 13 petition audits performed and determined that of the \$617,303 in job costs accumulated on these audits, \$591,878 was billed to the entity. This reflects approximately 96% of the total costs. Overall, the Office billed approximately 94% of the costs incurred during the audit period. These results represent a marked improvement from the prior four-year audit, when the Office billed only 74% of costs incurred on petition jobs.

Reasons for billing less than actual costs are a combination of many factors including costs of the petitioner meeting and public delivery, research time, staff inefficiency, and analysis of related issues that may not have been directly relevant to the petition.

Uncollected accounts receivable unrelated to the reasons above totaled \$4,951, due to the disincorporation of one of the villages that were subject to a petition audit during the period under audit. This amount was written off in its entirety once documentation was received that the village had in fact been disincorporated.

We encourage the Office to continue efforts towards billing and collecting all costs for petition audits.

State Auditor Response

As the report indicates, the State Auditor's Office has significantly increased the percentage of costs billed while minimizing any uncharged overruns. The Office will work to continue ensuring that funds expended and fees generated are consistent and appropriate under the Office's statutory authority.

Criteria for Determining Staffing Decisions for Audits

The Office has designed a team approach for the organization. Each team is associated with a group of audits to accomplish. The group of audits is re-addressed every six months. The teams, headed by the audit managers, select specific audit team members for assignment to each audit. Selection is based upon education, experience, and availability. The process was determined to be effective in establishing appropriate staffing. No recommendations are noted for this area.

Timing of Audit Report Delivery

The prior audit report stated that the average days between the completion of fieldwork and report issuance for the audits selected for testing for the previous four-year audit period was 135 days. The calculations for the current period under audit include all audits with fieldwork ending during the range of July 1, 2011 through June 30, 2015. The average days between the end of fieldwork and report issuance for this group was 129 days. The following is a breakdown by fiscal year of the days between the end of fieldwork and report issuance:

<u>Fiscal Year</u>	<u>Days between End of Fieldwork and Report Issuance</u>
2015	119
2014	145
2013	136
2012	117

A variety of issues in delivering final reports continue to exist, including delays in receipts of auditee responses, coordinating the timing of quality processes between the Office's audit seniors, managers, and directors, staff turnover, and the complexity of audit issues. It was noted in the prior four-year audit period report that the average number of days between the end of fieldwork and report issuance was 107, 178, 139, and 122 for 2008, 2009, 2010, and 2011, respectively. The average days decreased in 2012 and increased in 2013 and 2014, finally decreasing again in 2015. The Office's goal for 2015 was 125 days, which was met according to our analysis. The large increases in 2013 and 2014 were primarily driven by a handful of exceptionally contentious jobs, which caused extremely long issuance delays, inflating the overall averages for the years affected.

We recommend that the Office continue to monitor the issues that affect the days between the end of fieldwork and report issuance so that they continue the trend of meeting their goals and reducing the days between the end of fieldwork and report issuance.

State Auditor's Response:

As noted in the recommendation, the State Auditor's Office will work to continue the trend of meeting our fieldwork completion and report issuances goals.

A variety of reasons can affect the timing of audit report deliveries, primarily the discovery of fraud, government mismanagement, inadequate record-keeping, and government entities not being cooperative in the audit process. Complex and contentious audits cause longer audit fieldwork and issuance timeframes, which can inflate the overall averages. In addition to the reasons mentioned above, there are deadlines established by federal law for the annual Statewide Single Audit and the audit of the State of Missouri's Comprehensive Annual Financial Report ("CAFR"), which must be met in order for the state of Missouri to receive federal funding.

The State Auditor's Office will continue to monitor the average days between fieldwork completion and report delivery.

Fiscal Notes

The Office has 20 calendar days to prepare the fiscal notes for various ballot initiatives proposed by citizens of Missouri. In order to provide a balanced view of the issues, the Office will request feedback from various state agencies and local governments to determine the impact on their individual offices. Proponents and opponents to the initiatives are also allowed to provide insight into the effects of the initiatives. The Office compiles this information and reviews for reasonableness. Any information presented that the Office believes requires further explanation or discussion is included in an additional section of the fiscal notes. During our analysis, it was noted that the number of initiatives has increased significantly in the last few years. Management stated that the Office received 223 initiatives in the current cycle whereas there were typically between 100 and 150 per cycle in recent years. Our review of the fiscal note process and analysis of fiscal notes prepared indicates that the Office is appropriately performing its statutory duties with regard to fiscal notes. No recommendations are made in this area.

Satellite Office Operating Efficiency

Analysis of the operating efficiency of the satellite offices began with selecting the following statistics to provide a benchmark in comparing the different offices: Average days between the end of fieldwork and report issuance, average expenses per audit, average hours over budget and expenses divided by total staff hours. We obtained a job listing for all audits with ending fieldwork dates within the range of the audit period, sorted the listing by audit manager, and grouped the jobs into their respective offices according to the audit manager assignments. A particular office's job will frequently be staffed with personnel of other offices. We believe that the analysis below is, on average, representative of each office's average performance.

Office	Average Days for Four Year Period	Average Days - 2012	Average Days - 2013	Average Days - 2014	Average Days - 2015	Average Expenses per Audit	Expenses Divided by Total Staff Hours	Average Hours Over Budget per Audit
Jefferson City	115	103	128	122	106	3,802.00	8	103
Kansas City	160	191	173	151	132	2,349.32	5	52
St. Louis	197	116	155	300	263	3,597.61	6	80
Springfield	149	131	163	143	163	2,483.54	3	83

Average days between the end of fieldwork and report issuance for all offices for the four-year period was calculated to be 129 days. The Kansas City office typically works on smaller audits, which in turn require more manager time in comparison to the staff time on an audit and is the primary driver in the significant average days in comparison to the other offices. The large increases in average days in the St. Louis and Springfield offices were primarily caused by the contentious audits noted above in the "Timing of Audit Report Delivery" section.

Staffing and turnover contribute to these operating results by office. Staffing levels are relatively low in Jefferson City compared to the satellite offices, which results in satellite office staff being assigned to audits in Jefferson City (as opposed to Jefferson City staff assigned to satellite office work), increasing the average expenses per audit and expenses per staff hour. The type of audit work contributes to staffing needs, and subsequent shortfalls, in various offices. Finally, the costs of contracted audits are included in the Jefferson City calculations, which lead to the higher expenses per staff hour average.

We recommend the Office continues to monitor and benchmark satellite office statistics for the purpose of determining current and future staffing level needs in each office.

State Auditor's Response:

Some of the indicators included in the analysis above are not related to the efficiency of satellite offices. For example, the location of the audit manager and/or audit staff have no bearing on the average number of days between fieldwork completion and report delivery or the average hours over budget per audit. The audit managers and audit staff domiciled in satellite offices and the Jefferson City office routinely work with audit managers and staff from other offices.

The State Auditor's Office will continue to monitor the cost efficiency of satellite offices.

Performance Evaluations

A review of personnel files was made for the purposes of comparing salary and promotion history to established salary guidelines and documented performance appraisals for reasonableness and consistency with documented policies. We haphazardly selected 4 personnel files from a list of personnel from the June 2015 payroll. In general, we noted that salary and promotion history was consistent with policies and guidelines, and with performance appraisals in the file. However, we did note that two of the employees selected were managers and they had no performance appraisals from fiscal years 2012-2015.

The policy during this period was for auditors to receive evaluations on engagements with more than 160 hours worked. Audit managers were to receive a formal written appraisal every twelve months

from directors they worked for. In March 2016, the Office implemented a performance appraisal system that requires specific criteria for evaluation, contains upwards as well as downward evaluations, and contains more specific guidelines and procedures to ensure all personnel receive performance evaluations in accordance with their defined staff levels. The new performance appraisal system is more robust in details, criteria, and guidelines. We encourage the Office to monitor its compliance with this system to ensure all Office personnel receive timely evaluations.

State Auditor's Response

As noted in the audit report, the State Auditor's Office developed a performance appraisal system in Summer/Fall 2015 and implemented it in March 2016. The State Auditor's Office will continue to use this system to evaluate staff at least annually.

Independence of the Interim State Auditor

John Watson was appointed interim State Auditor by Governor Jay Nixon on February 27, 2015 and served in this capacity until the appointment of Nicole Galloway on April 27, 2015. Prior to his appointment as interim State Auditor, Mr. Watson had served as the Chief of Staff to the Governor and held other positions within the management of auditees prior to that. We reviewed documentation around independence in accordance with *Government Auditing Standards* for the purpose of determining if Mr. Watson's independence and potential impairments of independence were considered.

We inquired of the Office's Director of Quality Control who stated that Mr. Watson was sensitive about any perceived or real potential independence impairments. Per the Director, Mr. Watson completed an independence evaluation form disclosing all auditees with potential independence impairments, and recused himself from all such engagements. In those situations, Harry Otto, Deputy State Auditor, signed all the audit reports.

We obtained and reviewed the independence evaluation form which did disclose potential independence impairments. We haphazardly selected two audit engagements that were listed on the independence evaluation form and were issued during Mr. Watson's term as interim State Auditor. In both cases, we noted Mr. Watson's recusal included in the Citizens' Summary of the audit reports, and that Harry Otto signed the reports in his capacity as Deputy State Auditor. Therefore, it appears the Office did properly consider potential independence impairment issues upon John Watson's appointment as interim State Auditor, that potential independence impairments were appropriately identified, and that the Office followed the proper procedures to ensure independence on those engagements were maintained in accordance with *Government Auditing Standards*. No recommendations are made in this area.

This report is intended solely for the information and use of the Missouri General Assembly, the management of the *Missouri Office of the State Auditor*, the Governor and other applicable government officials and is not intended to be and should not be used by anyone other than these specified parties.

Park & Associates, P.C.

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St. Louis, Missouri